

FOREIGN SERVICE DESPATCH

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FROM : Amcengen HAMBURG, Germany
 TO : THE DEPARTMENT OF STATE, WASHINGTON.
 REF : Frankfurt's D-363 of June 4, 1957, and
 Bonn's D-2228 of June 7, 1957

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| | REC 17 | 8/10 | | |

SUBJECT: Transmittal of Volkswagenwerk's 1956 Annual Report ~~TA R-2~~ FR-3

This despatch summarizes and transmits three copies of the 1956 annual report of the VOLKSWAGENWERK G.m.b.H., Wolfsburg. It is believed that the report will be of interest to the Department of Commerce, both because of the present controversy within Germany over disposition of the firm and because of the increasingly important share of the US market for European cars which Volkswagen has won during the past two or three years.

In the calendar year 1956 West German automobile production for the first time exceeded the 1 million figure. At the same time that US production was dropping 24.7 percent from the previous record year, West German production climbed 18.4 percent to a new total of 1,075,619 units. This put West Germany in second place after the United States in world automotive production.

Germany's largest single producer in 1956 (and the fourth largest automobile manufacturer in the world) was Volkswagen which turned out a total of 395,690 units with a labor force of 35,672 in three plants at Wolfsburg (81.3 percent), Hannover (13.9 percent) and Braunschweig (4.8 percent), all in Niedersachsen. Whereas 1956 Volkswagen production averaged 1,712 units per day, it had already reached 2,000 units daily by July 1, 1957, and is expected to reach a daily average of 2,100 units by year's end. The company estimates total production in 1957 will amount to 458,000 units, and that the annual production ceiling of 500,000 units (with present plant facilities) will be reached in 1958. To achieve this maximum level of 500,000 units annually, Volkswagen will however require an investment of DM 150 million for new assembly lines, further automation of certain operations and storage facilities. No new building construction is contemplated during the next 18 months since there is still some surplus plant space, especially in Hannover.

1/ of which 333,190 were passenger cars and 62,500 transporters.

2/ One Deutsche Mark (DM) = US \$0.238

JHMcFarland, Jr.:ska

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Total Volkswagen turnover in 1956 amounted to DM 1,788,168,327,¹ a 23.8 percent increase over 1955.

In 1956, Volkswagen exports of 217,683 vehicles were balanced almost evenly between Europe and the rest of the world, with the United States and Canada together accounting for 32 percent of the total. Although exports may be expected to increase further during 1957, the rate of increase may not equal that shown between 1955 and 1956. There are several reasons for this, chief of which are (1) the generally cautious attitude of the Volkswagen management to economic developments throughout the world, (2) its acknowledgement of increased competition, particularly from British manufacturers, and (3) the entry of General Motor's subsidiary OPEL into the US market. In addition, Volkswagen is extremely sensitive to the attitude of American manufacturers and has no present intention of waging an aggressive sales campaign in the United States which might tend to induce American manufacturers to seek limitations upon imports of European automobiles.

With the prospect of reaching the production ceiling of 500,000 vehicles annually within the next year, the Volkswagen management is already giving thought to the problem of the future expansion of production facilities. It seems safe to assume that no further expansion will be undertaken at the Wolfsburg site since the additional costs of providing living quarters for workers in this almost wholly new city renders such plans too costly to contemplate. It is therefore likely that additional plant facilities to put production over the 500,000 unit figure will be located near a large city where there is an adequate labor supply available and already housed. There is a good chance that any new plant will be located in the Hannover area since there is a good supply of skilled labor, transportation and housing. On the other hand, some serious thought is being given to locating nearer to a seaport which would improve the chances of either Hamburg or Bremen. If the decision should be made to build in or near Hamburg or Bremen, it seems likely that final assembly facilities for all vehicles for export might be located in such area.

There have been no recent developments with regard to the CDU draft bill for the disposition of the Volkswagen works, nor has there been any recent public discussion of claims of the State of Niedersachsen to ownership of Volkswagen. It seems likely that this matter will not again be brought up before the Federal elections of September 13, 1957. Before final disposition of the Volkswagen assets can be made (either through the issue of "People's Shares" or by other means), the claim of the State of Niedersachsen will have to be disposed of. The present feeling among Niedersachsen officials is that the Federal

¹ Including spare parts and motors for agricultural use.

government will be more than willing to make a generous settlement for the withdrawal of Niedersachsen's claim. These officials anticipate that such a settlement will amount to about 25 percent of the price the Federal government will receive for Volkswagen assets (if and when sold).

William F. Gray
William F. Gray
American Consul

Enclosures:

Three copies of 1956 annual report
of Volkswagenwerk GmbH, Wolfsburg.

Distribution:

Original, mat and copy to Department
Amembassy, E:CA, Bonn (2)
Amembassy, E:CPT, Bonn (1)
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Amcongents: Bremen, Duesseldorf, Frankfort, Munich, Stuttgart (1 ea.)
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NO ATTACHMENT